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RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY
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TAGS: [EFIN](#) [ECON](#) [EINV](#) [ETRD](#) [TH](#)
SUBJECT: THAILAND, ENERGIZED BY FINANCIAL CRISIS, PUSHES
MULTILATERAL CURRENCY POOL

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REFS: A) Beijing 4121 B) Bangkok 2885
C) Bangkok 3144 D) Singapore 947

¶1. (SBU) Summary: A senior Ministry of Finance official explained November 4 that the Thai government hopes to build consensus among the ASEAN plus three nations, in time for the December ASEAN Summit, on the creation of a multilateral currency pool based on the bilateral swap agreements of the Chiang Mai Initiative. The initiative is the brain child of Deputy Prime Minister Olarn Chaipravat and would establish a \$150 billion multilateral currency pool, along with a \$200 billion debt pool geared toward project financing. The RTG recognizes its proposal is ambitious, but has been energized by the potential impact of the global financial crisis on Asia. End Summary.

¶2. (SBU) Comment: While clearly energized by the current financial crisis, the RTG's push for an Asian emergency fund is undoubtedly influenced by the view still held by many Thai that Thailand was treated badly by the IMF (and USG) response to the 1997 crisis. Given the little consensus among ASEAN plus three governments on how to develop the framework for a multilateral currency pool (ref a), much less a \$200 billion bond pool, we believe the RTG's hope to roll-out an agreed-to lending mechanism at the December ASEAN Summit is unrealistic. More likely would be a joint statement at the Summit on the need to work to develop a multilateral mechanism in ¶2009. Should the idea take off, our goal should be to ensure that whatever mechanisms are agreed to are truly complementary to those already in place within the international financial institutions, are appropriately transparent to market participants, and not redundant or counterproductive in nature. End Comment.

¶3. (SBU) Dr. Kanit Sangsubhan, Director of the Thai Ministry of Finance's Fiscal Policy Research Institute (an in-house think-tank), explained to Econoff November 4 that the RTG views the creation of a multilateral fund between the ASEAN plus three nations (the ten ASEAN member nations plus China, Japan, and South Korea) as an important self-help initiative. Econoff visited Kanit, who also serves as a key informal advisor to Deputy Prime Minister Olarn Chaipravat, in his temporary office at Don Muang airport, to discuss the RTG's response to the global financial crisis. (Note: Since protestors occupy the Government House, the Prime Minister's office has temporarily relocated to the old VIP lounge.) Kanit confirmed

that the crisis has had little direct impact on Thailand and its relatively insulated banking sector, but that drop-offs in the export and tourism sector are of concern (ref b). Kanit also stated that liquidity within Thailand is of growing concern since Thai firms are having difficulty finding affordable financing abroad, thereby increasing the demand for affordable financing at home from increasingly cautious banks. As such, the Thai government developed a six point plan designed to increase liquidity, stimulate the economy (especially exports and tourism), and shore up capital markets (ref c).

¶4. (SBU) Kanit also detailed the Thai government's thinking behind another key component of its financial crisis response plan: boosting cooperation within ASEAN and among other Asian economies through the development of a multilateral currency pool as an outgrowth of the Chiang Mai Initiative or CMI. (Note: CMI began in 2000 and established bilateral currency swap arrangements between the ASEAN plus three nations. See ref d.). He described how the global financial crisis has energized the RTG in its efforts to multilateralize the initiative. As Kanit candidly put it, Thailand believes it and its neighbors desire to have mechanisms in place close to home to protect their economic well-being, including from contagion effects from abroad. He stated that, during the 1997 Asian financial crisis, the IMF's policies did more harm than good and that friends like the United States could not be counted on for assistance. The IMF's loan conditionalities at the time incorrectly focused on Thailand's current account when they focus should have focused on helping Thailand's capital account, he explained. From the RTG's point of view, a new multilateral fund would serve this purpose, complementing the IMF's role: allowing potential borrowers to access emergency funds in non-dollar denominations (thereby making repayment potentially easier) and doing so without resorting to IMF assistance and the conditionalities that come with it.

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¶5. (SBU) Kanit stated the RTG is working with the other governments in question to finalize an agreement on a multilateralized currency pool, in some form, in time for the Thai-hosted ASEAN Summit in December. Admitting this time-frame to be ambitious, he explained the \$85 billion already committed by regional governments under bilateral arrangements could serve as the foundation of a multilateral fund. While acknowledging key elements still need to be agreed on (i.e., trigger mechanisms, supervision structures, etc.) (ref a), the RTG believes the moment is right to do so.

¶6. (SBU) As reported in the Thai press October 23 and confirmed by Kanit, the RTG's proposal to the ASEAN plus three nations goes further than that already committed to already. The RTG wants to extend the overall size of a multilateral currency pool to \$150 billion with plus three countries (Japan, China, and South Korea) contributing 80 percent of the total and the ten ASEAN members contributing 20 percent (with different rates of contribution depending on the size of their official reserves). The RTG appears prepared, though, to agree to an initial fund size of approximately \$85 billion (it also remains in favor of the provision that fund members can only draw 20 percent of available funds without an IMF program). In addition to the multilateral pool, the RTG is proposing the development of a \$200 billion bond pool to act as a shared source of funding to finance large-scale development projects. When asked whether such a bond pool would be redundant of the role of the Asian Development Bank (ADB), Kanit stated it would complement the ADB's role since the fund would focus only on making certain, specific projects "bankable," and not on those projects the ADB finances with goals like poverty alleviation in mind. (Note: Another Finance Ministry official with whom we spoke admitted the RTG has yet to develop key details on the bond pool proposal, e.g., whether the bonds would be long or short term, backed up by assets, etc. Therefore, the official is doubtful other nations are ready to go for the idea. End Note).